



---

*Promoting choice and  
value for all customers*

Gas Transporters, Gas Shippers,  
Gas Suppliers, consumer  
representatives and other  
interested parties

Direct Dial: 020 7901 7354  
Email: [industrycodes@ofgem.gov.uk](mailto:industrycodes@ofgem.gov.uk)

24 November 2006

Dear Colleague,

### **Independent Gas Transporters Network Code governance: Way Forward**

Further to our consultation letter of 21 July<sup>1</sup>, on improving the governance of the independent Gas Transporters (iGTs) Network Codes, we have now considered the responses<sup>2</sup> to that consultation and this letter briefly sets out our intended way forward. Further details, including a fuller summary of responses, will be provided in a consultation document to follow shortly.

#### **Future iGT governance arrangements**

There was a general consensus amongst respondents in favour of developing some form of Uniform Network Code (UNC) for iGTs, in much the same way as the current UNC sets out transportation arrangements for both National Grid Gas plc and the other Gas Distribution Network owners. Some respondents, shippers in particular, felt that iGT accession to the current UNC should be a longer term aspiration, but acknowledged that this would not be practicable in the near term. Others were categorical in their view that iGTs should not be party to the current UNC, particularly given the fundamental re-write that would be required to that document.

We envisage that a separate iGT UNC would contain provisions relating to transportation arrangements and modification procedures which are common to all iGTs. Each iGT would also retain its own Network Code, containing provisions particular to its own network(s) and incorporating the provisions of the iGT UNC by reference, operating in much the same way as the 'short form' Network Codes currently used by the DN owners.

#### **Way Forward**

In our July letter we stated that in our view the development of an iGT UNC, particularly the drafting of the code itself, should be led by industry, perhaps through work groups consisting of iGTs, shippers and other interested parties. We offered to facilitate this process.

---

<sup>1</sup> [Initial consultation letter: independent Gas Transporters Network Code governance, July 2006 – 128/06](#)

<sup>2</sup> Available at: [www.ofgem.gov.uk](http://www.ofgem.gov.uk)

However, in response to our consultation letter three of the major iGTs companies, who amongst them hold 9 GT licences, announced their intention to consolidate their existing Network Codes into a common code, by means of a Network Code modification. Their intention is to use the existing East Surrey Pipelines (ESP) code as a template for a single, consolidated code. Work has been progressing on this in recent weeks and we understand that a marked up document, showing the differences between the proposed code and the original ESP Network Code will be published shortly, as a prelude to a formal modification process.

In principle, we welcome this initiative as a pragmatic means of taking the development of an iGT UNC forward, but consider that it will be crucial that all interested parties have adequate opportunity to participate. In particular, we consider that it will be fundamental to the success or otherwise of this initiative that all iGTs participate. We therefore encourage them to signal their intent to raise the necessary modification proposals, even if they do not wish, or have the resource, to actively participate in the industry groups that will develop these proposals. We also consider that the governance arrangements around the iGT UNC must be robust, and ensure it is a vehicle through which co-ordinated improvements can be made across the iGT sector. We will continue to facilitate this process where appropriate.

### **Licence modifications**

Our initial view was that the implementation of an iGT UNC would require modification to the terms of relevant GTs licences. This could be done either by Collective Licence Modification (CLM) or with the consent of each licensee. We also considered that licence modifications could occur either before, or after, the development of the iGT UNC.

There was a large amount of support for a modification to GT licences requiring the development and implementation of an iGT version of the UNC. However, there were a range of views on the appropriate timing for this step. Shippers typically felt that a licence modification was required early in the process in order to ensure the work is progressed and to a reasonable timescale. In contrast, the iGTs themselves, whilst agreeing to the principle of licence modification to accommodate the iGT UNC felt that this could come later in the process following the completion of the code itself, if at all.

We remain of the view that a modification to each of the GT licences will be required in order to make the iGT UNC effective. In particular, we consider this is the most robust way of ensuring that the new arrangements will apply to all of the incumbent iGTs, as well as any future new entrant. We will set out our initial views on the potential modifications to the GT licences in the forthcoming consultation document.

### *Wider representation*

We noted in our consultation letter that in contrast to a number of existing industry codes and agreements, the iGT network codes do not currently provide for the participation of other interested parties, in particular consumer representatives such as energywatch.

Most respondents felt that the role of customer representatives should reflect the existing arrangements under the current UNC. We agree with this view. However, given the

recent announcement on the future of energywatch<sup>3</sup>, we intend to provide further thoughts on how this should best be reflected in the new arrangements.

### *Administration*

The new governance arrangements will need to be administered on an ongoing basis, ensuring both the modifications procedure and subsequent document control are carried out thoroughly, expediently and without bias. There are several options for discharging this administrative role and we will provide further thoughts on this as part of the forthcoming consultation document. In particular, we will consider to whether any obligations around the administration of the iGT UNC should be placed within the GT licences.

In the meantime, we look forward to any proposals in this regard the iGTs may offer. We presently remain of the view that, subject to the fulfilment of certain criteria, including but not necessarily limited to those set out above, the eventual arrangements for discharging administration of the iGT UNC arrangements should be largely for industry parties, particularly the iGTs themselves, to determine. Again, we will seek to provide further thinking on this as part of the forthcoming consultation.

### **Treatment of outstanding modifications**

While work progresses on the iGT UNC it will remain open to Network Code parties to propose modifications to the existing codes. However, we would encourage such parties to consider whether the defect they are seeking to address requires immediate attention, or could more appropriately be dealt by a modification to the iGT UNC, once introduced.

We also encourage all iGTs to progress outstanding or new modifications proposals in a timely manner. We ourselves will endeavour to complete the iGT modification proposals that are with us for a decision as quickly as practicable, prior to the iGT UNC going live. However, we consider that it will be prudent for transitional rules to be developed, which allow any outstanding modification proposals to be appropriately carried over to and dealt with under the new regime. We will be publishing further thoughts on this shortly.

### **Timetable**

The iGTs have indicated that in their opinion it should be possible for their work to be completed in the first quarter of 2007, with an iGT UNC potentially going live in April 2007.

Given this timetable, Ofgem intends to carry out its own consultations on potential modifications to the GT licences and on the governance arrangements which should apply to the iGT UNC, as far as practical in parallel with the work of industry parties and in order to meet their aspirations. However, none of this will fetter the discretion of the Authority in respect of proposed modifications to the GT licences, or indeed the current Network Codes. In particular, each and every modification proposal raised to the latter will need to further the relevant objectives of that Network Code, notwithstanding the benefits that may accrue from aligning it with those of other GTs. We are therefore encouraged that the iGTs have not simply gone with the 'lowest common denominator' in drafting the consolidated code, but are looking to incorporate what is considered to be best practice amongst them. The short form codes of each iGT will provide a means of

---

<sup>3</sup> Reference: [Government News Network - 17 October 2006.](#)

ensuring that any beneficial, but not yet common, provisions are not lost in the transition to the iGT UNC. We will also conduct analysis to ensure that any recent, or as yet to be issued, directions to modify the Network Code have been captured and will be implemented.

If you would like to comment on this letter, please free to contact me at [industrycodes@ofgem.gov.uk](mailto:industrycodes@ofgem.gov.uk) or on 020 7901 7354.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Jon Dixon', with a stylized flourish at the end.

Jon Dixon  
**Head of Industry Codes (Markets)**